Weekly Market Insights

June 24, 2024

AI and the Fed Rule the Market

Financial Markets

Equity markets rose for a third consecutive week. Interestingly, this latest week's advance was led by the Dow Industrials, and the laggard was the tech-oriented NASDAQ. The Dow gained 1.45%, the S&P 500 gained 0.61%, and the NASDAQ was flat. Although last week's index performance rankings were the reverse of what we have seen as of late, it is highly unlikely that investors' motivations have shifted. The driving forces have been and remain the fervent hope that the Federal Reserve will ease sooner rather than later, and that technology will continue to lead.

In the world of fixed income, yields in the United States have been on a relatively steady downward trajectory. However, there is a question looming in the future. The United States faces a very large and growing debt burden. Aid to Ukraine and Israel, and college debt forgiveness programs, have only added to this problem. The interesting question is how does the country fund this debt and lower interest rates simultaneously? We will be writing more on this subject later.

Economics

The United States economy remains in fine shape. It has continued to show strength, particularly on the supply side. Although Retail Sales disappointed, Industrial Production rose more than expected, and Capacity Utilization rose notably from April—encouraging signs for supply side inflation. This, of course, is good news for the economy and for investors looking for a rate cut.

Chairman Powell and his fellow committee members collectively breathe a sigh of relief with any sign that inflationary pressures are easing. Even so, it is likely that the Fed will continue to practice patience before softening its monetary policy stance. Alas, the Fed has other worries. Although the budget is not in the Federal Reserve's bailiwick, it can dramatically affect inflation. The question of how to handle the budget is on most economists' minds, as it should be for all policymakers. Having seen the political battles over aid to Ukraine and Israel, we will at some point be called on to aid the rebuilding project. Of course, addressing the budget deficit is possible, but it takes cooperation.

The Congressional Budget Office has just released its updates to the *Budget and Economic Outlook* for the next 10 years. It is a long and detailed study covering many items. No forecast for a complicated, modern economy should be expected to be entirely accurate, but it's still important because it's one of the government's primary planning documents. It's an interesting read, and while there are more updates to come, it is a good study and worth exploring. We will be referring to it over the next few weeks.

Conclusion

United States financial markets remain the most attractive relative to the rest of the world for U.S. investors. The dollar has shrugged off any nascent challenges, and the Federal Reserve appears have a solid hand on monetary policy. We believe the Fed will gain the confidence on inflation to cut rates later this year which should be enough to keep investors happy.

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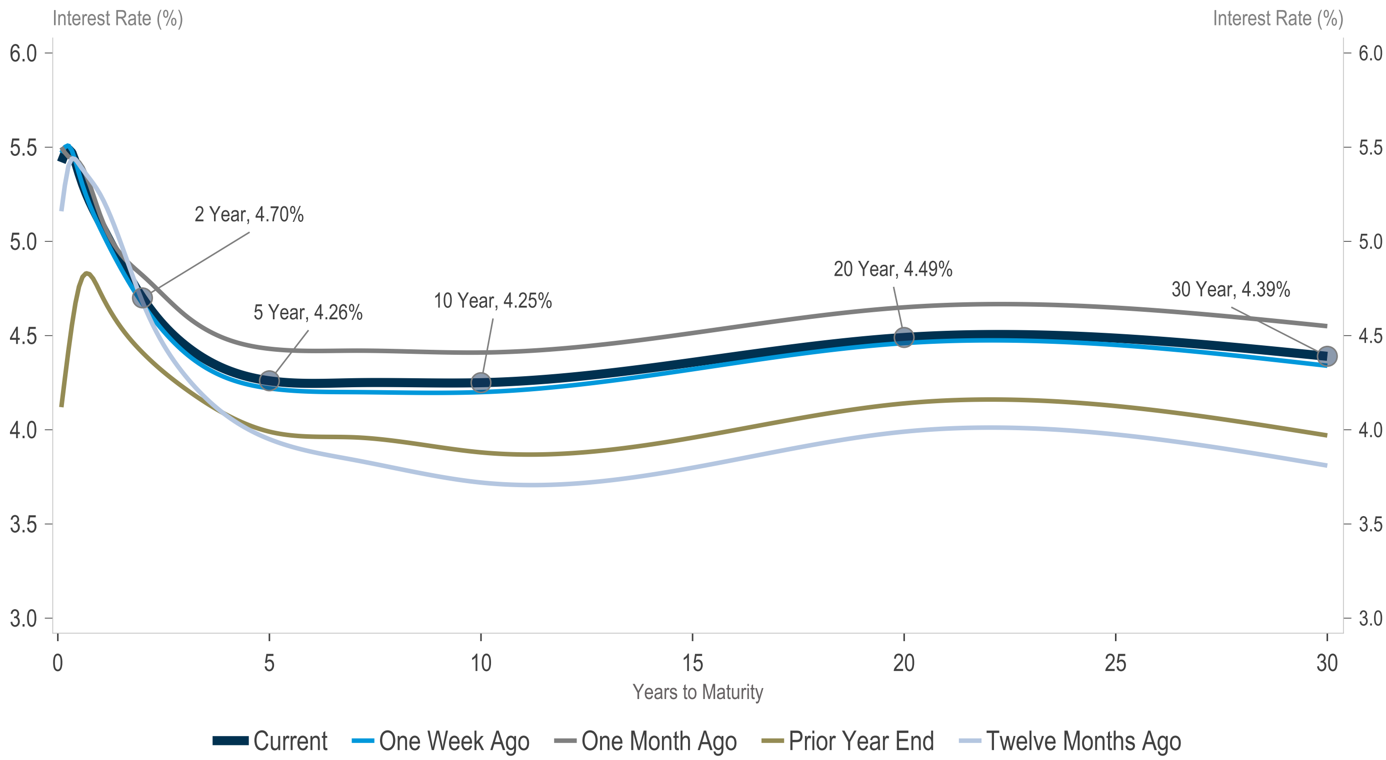
Yield Curve

Interest Rates for U.S. Treasury Securities by Maturity Date



U.S. Department of Treasury, Daily Treasury Bill Rates Data
Data as of 6/21/2024

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